
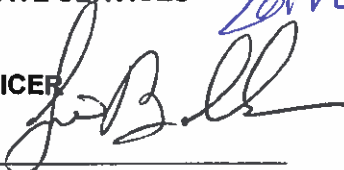

TO: GENERAL COMMITTEE

SUBJECT: 2011 PAYMENT TO ROYAL VICTORIA HOSPITAL

PREPARED BY AND KEY CONTACT: E. ARCHER, GENERAL MANAGER OF CORPORATE SERVICES

SUBMITTED BY: E. ARCHER, GENERAL MANAGER OF CORPORATE SERVICES

GENERAL MANAGER APPROVAL: E. ARCHER, GENERAL MANAGER OF CORPORATE SERVICES 

CHIEF ADMINISTRATIVE OFFICER APPROVAL: JON M. BABULIC, CHIEF ADMINISTRATIVE OFFICER 

RECOMMENDED MOTION

1. That in response to the letter dated July 12, 2011 from Royal Victoria Hospital ("RVH") attached as Appendix 'A', and notwithstanding the documentation requirements of the Contribution Agreement between the City of Barrie and Royal Victoria Hospital, funds that were anticipated to be provided as at June 30, 2011 be paid from the RVH Reserve Account #13040490.

PURPOSE & BACKGROUND

2. The purpose of this report is to recommend the City of Barrie provide the funds that were expected to be paid as at June 30, 2011, in support of the RVH expansion. Following meetings and the receipt of a letter from RVH, attached as Appendix 'A', staff are seeking Council's direction on this matter.
3. A Contribution Agreement was approved by Council via Report CRP001-10 (10-G-012) that included documentation requirements, other terms and a payment schedule to support the provision of the City's funds. In discussions with RVH staff in early July, staff learned that construction delays have resulted in lower payments being made by the Hospital to its contractors and suppliers than anticipated in the Contribution Agreement.
4. The construction is currently three months behind schedule. The Contribution Agreement, negotiated between RVH staff and City staff, anticipated scheduled payment requests would be supported by a construction progress report showing details of capital costs incurred and paid within the reporting period, total capital costs incurred and paid from project start, and evidence that the contributions have been and will be used for the purposes outlined in the Agreement.
5. The community benefits of RVH's expansion have been well documented and broadly discussed in several forms. Briefly, the expansion will:
 - a) Increase the size of the hospital by approximately 440,000 square feet and renovate approximately 100,000 square feet of existing space
 - b) Establish a leading cancer care treatment centre
 - c) Include 101 additional inpatient beds, a cardiac care unit, 64 shelled inpatient beds and two additional operating rooms
 - d) Create a Family Medicine Teaching Unit

- e) Renovate an existing operating room, expand the Emergency Department, Diagnostic Imaging Department, Laboratory Services and Support Services
 - f) Provide non-clinical space, which creates capacity for dialysis, medical day care, mental health services and paediatrics/obstetrics services
6. The Contribution Agreement includes a monetary commitment by the City of Barrie for up to \$52.5 million, payable over five years. Payments are subject to RVH satisfying the conditions set out in the agreement to the satisfaction of City Council.
7. Generally, the agreement includes the following terms:
- a) Financing: the payment schedule will reflect construction progress and the achievement of project milestones; if the total project cost is less than \$415 million, the City's contribution will be proportionately reduced such that it's relative contribution to the cost of the project remains constant
 - b) Project reporting: the agreement includes reporting requirements that demonstrate effective control over municipal funds, supports assessments about value for money and provides an opportunity for dialogue between the City and RVH

To date, RVH has met all the reporting requirements.

ANALYSIS

Status of Contribution Agreement

8. Terms of the Contribution Agreement continue to be sufficient and appropriate for ensuring the corporation's investment in this significant community project are used as intended, and that expected benefits will be realized. Representatives from RVH are anticipated to attend the August 15, 2011 Council meeting, in accordance with the Contribution Agreement, to discuss the status of the project and benefits realized to date.
9. In discussions with RVH staff in early July, staff learned that construction delays have resulted in lower payments being made than anticipated in the Contribution Agreement. The project is currently four months behind schedule.
10. To prepare for the transfer of the project from the contractor to RVH, the hospital needs to establish a sinking fund 90 days prior to the transfer date. The transfer is scheduled to occur in November, 2011.
11. A sinking fund is a fund that sets aside money that will be used to retire a financial obligation within a defined time period. In this instance, the financial obligation is the one RVH has to the contractor, which has been front-ending the construction costs until the ownership transfer occurs.
12. RVH staff have requested the City provide the balance of the \$26 million that was anticipated to be paid by June 30, 2011 as a means of partially funding its sinking fund obligations. To date, the City has paid only \$5.5 million, compared to the \$26 million that was anticipated to be paid by June 30. Therefore, \$20.5 million would be put into the sinking fund.
13. Staff believe this is a reasonable request and avoids the need for RVH to find alternate funding sources for its sinking fund, which would increase its financing costs for the expansion project. Based on RVH's request, the City's funds are still being used for their intended purposes. Since

negotiations of the Contribution Agreement did not include details of RVH's sinking fund requirements, contract terms only anticipated that the City's funds would be provided after expenditures have been incurred. This is effectively what is happening via the Sinking Fund, except that the funds are being held in trust rather than directly by the City.

ENVIRONMENTAL MATTERS

14. There are no environmental matters related to the recommendation.

ALTERNATIVES

15. There are two alternatives available for consideration by General Committee:

Alternative #1 General Committee could elect to take no action and follow the terms of the Contribution Agreement.

This alternative is reasonable but ultimately increases RVH's financing costs, as it would have to incur some short-term borrowing costs to address its sinking fund obligations. Following the transfer of the completed project from the contractor to RVH, the City's funds would be provided following receipt of the documentation contemplated in the Contribution Agreement.

Alternative #2 General Committee could amend some or all of the terms of the existing Contribution Agreement.

This alternative is not recommended as the Agreement reflects the comprehensive nature of the discussions between the City and RVH. Amending some or all of the terms could alter the acceptability of other sections of the agreement for one or both parties.

FINANCIAL

16. The effect of the recommendation in this report is to pay RVH \$20.5 million, which is the unclaimed balance of the amount that was anticipated to be paid up to June 30, 2011. The remaining balance of the City's contribution would occur according to the schedule in the Contribution Agreement as follows:

2009 - \$8,000,000
2010 - \$5,000,000 June 30; \$5,000,000 December 31
2011 - \$8,000,000 June 30; \$8,000,000 December 31
2012 - \$8,000,000 June 30; \$8,000,000 December 31
2013 - \$2,500,000 June 30

Consistent with previous discussions regarding support to RVH, contributions will be funded from the RVH Reserve Account #13040490

17. As described in the Contribution Agreement, the city's contribution would be reduced if RVH's costs are less than \$415 million. Council also retains the discretion to defer or cancel a payment if it determines RVH's project or this agreement's objectives will not be achieved.

LINKAGE TO COUNCIL STRATEGIC PRIORITIES

18. This is an operational matter with no direct link to Council's Strategic Goals.

Appendix A: Letter from RVH

July 12, 2011

Mr. Ed Archer
General Manager of Corporate Services
City of Barrie
Corporate Services Division
70 Collier Street, P.O. Box 400
Barrie, Ontario
L4M 4T5

Dear Ed,

We would like to take this opportunity to once again express our gratitude for the significant support the City of Barrie has provided to the Royal Victoria Hospital Phase 1 Expansion and Rotary Place development.

The Phase 1A expansion project is nearly 80% complete, and we are currently anticipating taking possession of the building on December 19, 2011. At that point, we will take approximately 9 weeks to commission the hospital, and expect to see our first patients in early 2012. This is a significant accomplishment but our contractor is approximately three months behind the originally intended interim completion date – originally scheduled for September 4, 2011.

Under the terms of the agreement between the City and the Hospital, you would have expected us to have drawn \$26 million by the end of June 2011 against your pledge. However, as you know, we have only requested approximately \$5.5 million in the period up to the end of June. This is a direct reflection of the construction delays. As you might imagine, the months immediately prior to taking possession will see us purchase an extensive amount of equipment. Our total equipment budget is approximately \$68 million. In addition, under the terms of our Development Accountability Agreement (DAA) with the Ministry of Health and Long Term Care (MOH), we are required to transfer our “local share” payment of approximately \$26 million to a Trust Account on August 11, 2011. MOH funds will be transferred to this same Trust Account at a later date. The funding process for our hospital under the DAA requires the contractor to carry all debt during construction, and this liability is discharged upon turnover of the facility to the Hospital by the contractor.

If construction had been on schedule, many of these payments would have been made prior to the end of June, and we would have drawn all of the \$26 million of pledged funds from the City by this point in time.

Given the significant nature of this payment, and the fact that our payment schedule has been negatively impacted compared to the original pledge payment terms, the Hospital is requesting if the City would consider providing a payment up to the amount of the June 2011 pledge commitment in mid-August to coincide with the transfer payment terms of our DAA. The Hospital would otherwise have to

wait until December to make this request, and in the interim would incur debt carrying costs. While this is an unusual circumstance, we believe that it is consistent with the spirit of the agreement, and would therefore respectfully request your consideration of our request.

We would be pleased to offer any documentation that you might require to make a full and informed decision. I have attached our DAA and some recent literature that we have circulated within the hospital describing the progress we have made on the project to help you get a start on your due diligence process.

Sincerely,

Brian Edmonds
Interim Vice-President Corporate Services and Chief Financial Executive